

## Message Text

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PAGE 01 STATE 245943

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TO USMISSION EC BRUSSELS IMMEDIATE

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C O N F I D E N T I A L STATE 245943

STADIS//////////

E.O. 11652: GDS

TAGS: ETRD, EC

SUBJECT: U.S. PROPOSAL TO SOLVE EC CANNED HAM DISPUTE

U.S. MISSION EC BRUSSELS - EYES ONLY FOR AMBASSADOR

GREENWALD

U.S. MISSION OECD PARIS - EYES ONLY FOR ASSISTANT SECRETARY

ENDERS

1. FOLLOWING IS TEXT OF BRIEFING PAPER ASSISTANT SECRETARY  
MACDONALD WILL CARRY WITH HIM TO BRUSSELS. WHILE PAPER  
FOLLOWS GENERALLY AGREED INTERAGENCY POSITION THIS MATTER,  
IT DOES NOT HAVE STATE CLEARANCE AND CONTAINS SPECIFICS  
TO WHICH WE OBJECT. COMMENTS FOLLOW SEPTEL.

BEGIN TEXT. SUBJECT: COUNTERVAILING DUTY INVESTIGATION:  
CANNED HAMS FROM THE EC. AS YOU WILL RECALL ON JUNE 30,  
1975, WE PUBLISHED A PRELIMINARY DETERMINATION UNDER THE  
COUNTERVAILING DUTY LAW THAT CANNED HAMS EXPORTED FROM THE  
CONFIDENTIAL

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PAGE 02 STATE 245943

EUROPEAN COMMUNITY (DENMARK AND THE NETHERLANDS) WERE RE-

CEIVING BOUNTIES OR GRANTS BY REASON OF THE RESTITUTION PAYMENTS MADE UNDER THE EC'S COMMON AGRICULTURAL POLICY. WE MUST REACH A FINAL DECISION IN THIS CASE BY JANUARY 3, 1976. EC EXPORTS OF THIS PRODUCT TO THE U.S. ARE APPROXIMATELY 250 MILLION DOLLARS PER YEAR, AND ARE OF PARTICULAR ECONOMIC IMPORTANCT IN DENMARK, THE COUNTRY MOST ADVERSELY

AFFECTED BY THE SETTLEMENT OF THE CHEESE CASE LAST SPRING.

REPRESENTATIVES OF THE EC COMMISSION HAVE MADE IT CLEAR THAT IN VIEW OF THE SUBSTANTIAL CONCESSIONS THEY FEEL THEY MADE IN THE CHEESE CASE THEY ARE NOT INCLINED TO TAKE ANY MAJOR STEPS TO SECURE A WAIVER IN THE HAMS CASE. THEY FURTHER POINT TO CONDITIONS IN THE U.S. MARKET WHERE DOMESTIC PRICES ARE VERY HIGH, AND THE EC SHARE OF THE MARKET IS FALLING. IN THE PAST YEAR EC EXPORTS TO THE U.S. HAVE DECLINED SUBSTANTIALLY, MOSTLY AS A RESULT OF INCREASED POLISH EXPORTS. THEY ALSO CLAIM THAT THE EC PRODUCT IS HIGHER IN QUALITY THAN THE COMPARABLE DOMESTIC PRODUCT AND THAT THE TWO ARE NOT DIRECTLY COMPETITIVE. FINALLY, EC RESTITUTION PAYMENTS WERE CUT BY ABOUT 50 PERCENT BETWEEN EARLY 1973 AND NOVEMBER 1974.

THE COMMISSION HAS ASKED THAT BASED ON ALL THESE FACTORS A WAIVER BE GRANTED WITHOUT A REQUIREMENT FOR FURTHER ACTION ON THEIR PART.

WE DO NOT BELIEVE WE CAN OR SHOULD ACCEDE TO THAT PROPOSAL. UNLESS WE REQUIRE SOME REDUCTION IN THE PRESENT LEVEL OF RESTITUTION PAYMENTS, WE RUN A VERY STRONG RISK OF AN ADVERSE REACTION BY INDUSTRY AND IN THE CONGRESS, WHERE SENTIMENT AGAINST EC AGRICULTURAL PRACTICES REMAIN STRONG. ON THE OTHER HAND, UNDER THE PRESENT ECONOMIC CONDITIONS -- ESPECIALLY THE VERY HIGH DOMESTIC PRICE OF PORK -- WE NEED NOT ASK FOR IMMEDIATE REMOVAL OF THE SUBSIDIES TO MEET THE STATUTORY WAIVER CRITERIA.

IF YOU APPROVE, THEREFORE, IRECOMMEND THE FOLLOWING PROPOSAL BE MADE TO THE EC AS GROUNDS FOR AN IMMEDIATE WAIVER:

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PAGE 03 STATE 245943

1) A FURTHER REDUCTION OF THE RESTITUTION ON CANNED HAMS (WHICH NOW STANDS AT 24 UNITS OF ACCOUNT/100 KGS., EQUAL TO 14.95 CENTS/LB. FOR THE DANES, 19.15 CENTS/LB. FOR THE DUTCH) BY 20 PERCENT, TO BE EFFECTIVE WITHIN THE NEXT 12 MONTHS.

2) DURING THE WAIVER PERIOD THE ECONOMIC SITUATION OF

THE U.S. SWINE INDUSTRY WILL BE APPRAISED ANNUALLY BEGINNING IN THE FALL OF 1976. THE EC WILL BE INFORMED ON A TIMELY BASIS AS TO WHAT FURTHER REDUCTIONS, IF ANY, WILL BE NECESSARY AS A RESULT OF THOSE REASSESSMENTS. IN MAKING THIS DETERMINATION WE WILL BE GUIDED BY SUCH FACTORS AS: A) IMPORT PENETRATION BY THE EC PRODUCT, INCLUDING SHARE OF U.S. MARKET; B) TRENDS IN U.S. CONSUMPTION; C) CHANGES IN PROFITABILITY OF THE U.S. HOG INDUSTRY.

3) ASIDE FROM THESE ANNUAL EVALUATIONS A REAPPRAISAL AND PROBABLY REQUEST FOR FURTHER DOWNWARD ADJUSTMENT IN RESTITUTION PAYMENTS CAN BE EXPECTED WHENEVER THE "HOG-CORN RATIO" (I.E. THE RELATIONSHIP OF THE PRICE OF HOGS TO THE PRICE OF CORN) FALLS BELOW 15/1. THE PRESENT RATIO IS 21.2/1.

4) DURING THE WAIVER PERIOD THE EC WILL REFRAIN FROM "AGGRESSIVE" MARKETING PRACTICES IN THE U.S.

THE GENERAL OUTLINES OF THIS PROPOSAL HAVE BEEN AGREED TO BY REPRESENTATIVES OF ALL THE U.S. GOVERNMENT AGENCIES CONCERNED (STR, AGRICULTURE, STATE), ALTHOUGH I WOULDN'T BE SURPRISED IF THERE WERE RESISTENCE TO SOME OF THE DETAILS FROM STATE.

WE HAVE ALSO TRIED THIS PROPOSAL OUT, IN A PRELIMINARY WAY, WITH SOME OF THE INTERESTED MEMBERS OF CONGRESS (CONGRESSMAN QUIE, AND SENATORS TALMADGE, CURTIS, AND BELLMON), WITH INDUSTRY REPRESENTATIVES (NATIONAL PORK PRODUCERS COUNCIL, FARMLAND INDUSTRIES, INC.), AND THEY HAVE GENERALLY AGREED THAT IT REPRESENTS A REASONABLE

CONFIDENTIAL

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PAGE 04 STATE 245943

SOLUTION TO THE PROBLEM. THE AMERICAN FARM BUREAU FEDERATION HAS ALSO BEEN ADVISED AND, AS IS ALWAYS THE CASE, WILL NEVER APPROVE ANY SOLUTION THAT INVOLVES A WAIVER OF COUNTERVAILING DUTIES. END TEXT.

2. WE UNDERSTAND SECRETARY SIMON HAS CLEARED THIS PAPER.  
KISSINGER

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NNN



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